

G20J01
State Retirement Agency

Operating Budget Data

(\$ in Thousands)

	<u>FY 12</u> <u>Actual</u>	<u>FY 13</u> <u>Working</u>	<u>FY 14</u> <u>Allowance</u>	<u>FY 13-14</u> <u>Change</u>	<u>% Change</u> <u>Prior Year</u>
Special Fund	\$25,535	\$3,465	\$3,747	\$282	8.1%
Contingent & Back of Bill Reductions	0	0	-4	-4	
Adjusted Special Fund	\$25,535	\$3,465	\$3,743	\$279	8.0%
Reimbursable Fund	0	22,947	23,992	1,044	4.6%
Adjusted Reimbursable Fund	\$0	\$22,947	\$23,992	\$1,044	4.6%
Adjusted Grand Total	\$25,535	\$26,412	\$27,735	\$1,323	5.0%

- The State Retirement Agency's total budget increases by 5.0%, driven largely by funding for information technology upgrades, including Phase II of the Maryland Pension Administration System (MPAS-II), as well as increases in the cost of employee/retiree health insurance and retirement benefits.
- Uneven growth between special funds and reimbursable funds reflects the reallocation of 705 elected and appointed officials to the membership of participating governmental units; they had previously been counted among active membership in State-only plans, so their share of administrative costs were not counted as special funds in fiscal 2013. The per-member charge for agency administrative costs increased from \$133.13 in fiscal 2013 to \$143.73 in fiscal 2014.
- An across-the-board reduction of \$3,551 reflects overbudgeted health insurance.

Note: Numbers may not sum to total due to rounding.

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Personnel Data

	<u>FY 12</u> <u>Actual</u>	<u>FY 13</u> <u>Working</u>	<u>FY 14</u> <u>Allowance</u>	<u>FY 13-14</u> <u>Change</u>
Regular Positions	187.00	192.00	192.00	0.00
Contractual FTEs	<u>14.50</u>	<u>14.50</u>	<u>14.50</u>	<u>0.00</u>
Total Personnel	201.50	206.50	206.50	0.00

Vacancy Data: Regular Positions

Turnover and Necessary Vacancies, Excluding New Positions	7.68	4.00%
Positions and Percentage Vacant as of 12/31/12	15.00	7.81%

- Although there is no change in authorized staffing levels from fiscal 2013 to fiscal 2014, the allowance includes \$54,452 for 2.0 full-time equivalents (FTEs) related to MPAS-II. The corresponding FTEs were not authorized.
- The 15.0 vacant positions far exceed the number of necessary vacancies to meet turnover, but they include 3.0 positions that became vacant in the last three months and 3.0 additional positions that are in various stages of recruitment.
- The vacancies also include 3.0 regular positions awarded to the Investment Division by the 2012 Supplemental Budget that remain vacant. Although the agency views these positions as critical to the division's operation, they have been held vacant to meet turnover expectations; recruitment for 1.0 position began recently.
- The allowance does not include any increase in compensation for the deputy chief investment officer and four managing directors in the Investment Division, as authorized by Chapters 561 and 562 of 2012 (SB 672/HB 806).

Analysis in Brief

Major Trends

Call Center Recovers but Remains Strained: Following an unusually high volume of calls in fiscal 2011, the agency's call center met its performance goals in fiscal 2012. However, recent turnover in staff threatens its ability to maintain an acceptable level of service. **The agency should discuss its plans to address the recent deterioration in performance by the Member Services Unit and to manage future increases in call volume.**

Investment Underperformance in Fiscal 2012 Due to Asset Allocation: Investment performance for fiscal 2012 was well below the median for comparable public pension plans, largely due to the fund's overexposure to public equities. The Investment Division is in the midst of a long-term strategy to decrease exposure to public equities overall and shift assets to high performing global equity managers. **The agency should discuss the prospects for improving its relative investment performance based on the implementation of its asset allocation policy.**

Issues

Joint Committee on Pensions Endorses Plan to Phase Out the Corridor Funding Method: In addition to the corridor phase-out, the plan, developed jointly by the State Retirement Agency and the Department of Legislative Services, includes modifying the system's amortization policy and economic assumptions, the latter of which are under the board's purview. **Therefore, the agency should discuss the merits of the proposed plan and the extent to which it is consistent with the board's fiduciary responsibility.**

Scaled Back MPAS-II Begins: The Governor's allowance includes funding to initiate MPAS-II, devoted to data cleaning. **The agency should discuss (1) the reasons for its decision to divide MPAS-II into two steps, (2) the components of the anticipated second step of MPAS-II, and (3) any risks associated with its current approach.**

Recommended Actions

1. Concur with Governor's allowance.

Updates

Higher Normal Cost Means Increased Local Share of Teacher Pension Costs....Eventually: The Board of Trustees of the State Retirement and Pension System updated its demographic actuarial assumptions prior to the 2012 actuarial valuation, which resulted in an increase in the normal cost. As a result, the local share of teacher pension costs will increase substantially from forecasted amounts, but not until fiscal 2017.

G20J01
State Retirement Agency

Operating Budget Analysis

Program Description

The State Retirement Agency (SRA), under the direction of the 14-member Board of Trustees (board) for the State Retirement and Pension System (SRPS), is responsible for administering the State's retirement and pension systems. The board-appointed executive director is responsible for policy development, legislation, and legal affairs.

The agency has identified four fundamental goals for its operation:

- to prudently invest system assets in a well-diversified manner that optimizes long-term returns while controlling risk through excellence in the execution of the investment objectives and strategies of the system;
- to effectively communicate to all retirement plan participants the benefits provided by the system and to educate them about planning and preparing for all aspects of their defined benefit system;
- to pay all retirement allowances provided by State pension law to the system's retirees and their beneficiaries in an accurate and timely manner; and
- to efficiently collect the required employer and employee contribution necessary to fund the system.

A new strategy for funding the agency's operations took effect in fiscal 2013. Previously, special funds appropriated from the pension trust financed agency operations. Now, an administrative charge to all employers for whom the agency administers retiree benefits provides the revenue to fund the agency. In proportion to total system membership, administrative charge revenue from State agencies pays for roughly one-third of agency operations, and revenue from local employers pays for the remaining two-thirds. The new approach allows the agency to keep, and therefore invest, all member and employer contributions and investment proceeds for the direct benefit of members.

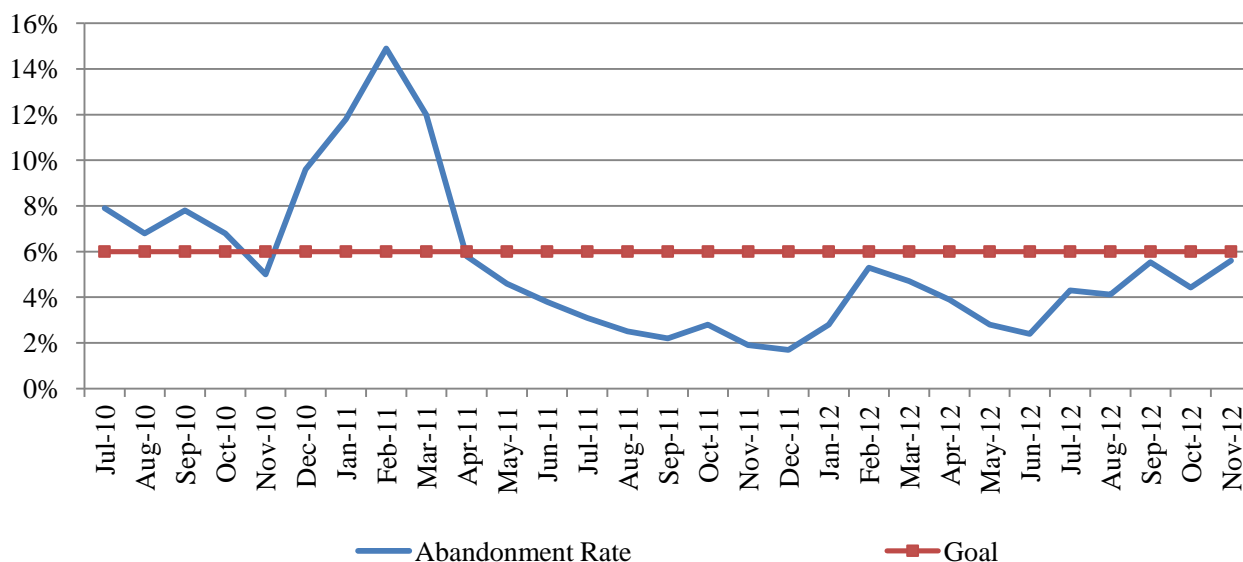
As of June 30, 2012, the system's assets totaled \$37.2 billion, a \$0.4 billion decrease from the end of fiscal 2011, which is attributable to weak investment performance (discussed below) and increasing benefit payments.

Performance Analysis: Managing for Results

1. Call Center Recovers but Remains Strained

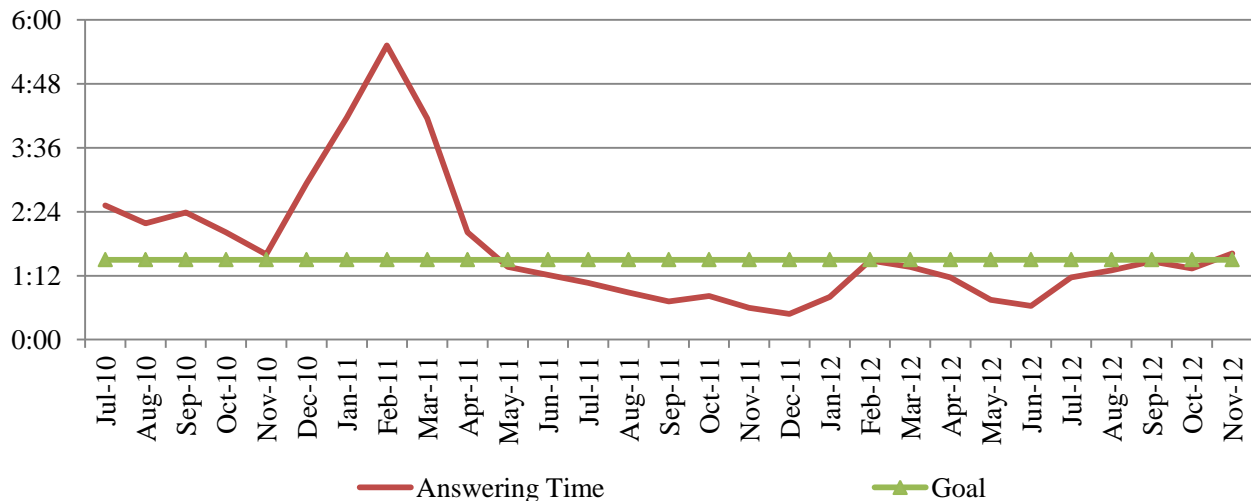
The agency's call center, which handles queries from members and retirees about their benefits and related questions, recovered from its poor performance in fiscal 2011, but staff turnover poses an ongoing risk to call center performance. The unit's targets are that fewer than 6.0% of calls will be abandoned by callers and that the wait time for a counselor to answer a call will not exceed 90 seconds. As shown in **Exhibits 1 and 2**, and discussed in last year's analysis, call center performance failed to meet its targets for much of fiscal 2011 with respect to call abandonment and wait time, mainly due to the overwhelming volume of calls it received in response to agency initiatives. Performance had rebounded by the end of fiscal 2011 and remained strong through all of fiscal 2012, meeting its targets in every month. However, beginning in September 2012 and continuing through the end of the calendar year, performance has deteriorated, with abandoned calls and wait times either approaching or exceeding the agency's limits. The agency advises that this is largely due to one vacancy occurring in June 2012 that has been held vacant to meet turnover; a second vacancy occurred as this analysis was being prepared.

Exhibit 1
State Retirement and Pension System
Member Services Call Abandonment Rate
July 2010 – November 2012



Source: State Retirement Agency

Exhibit 2
State Retirement and Pension System
Member Services Call Answering Time
July 2010 – November 2012



Source: State Retirement Agency

The agency should discuss its plans to address the recent deterioration in performance by the Member Services unit and to manage future increases in call volume.

2. Investment Underperformance in Fiscal 2012 Due to Asset Allocation

According to the Trust Universe Comparison Service (TUCS), the system's fiscal 2012 investment return of 0.36% placed it in the bottom half among 22 public pension funds with at least \$25 billion in assets. The system's fiscal 2012 performance placed it at the seventy-fifth percentile for fiscal 2012, almost in the bottom quartile among its peers.

In an effort to illuminate the reasons for Maryland's relative underperformance in fiscal 2012, the Department of Legislative Services (DLS) identified seven other state pension funds with asset levels that exceed \$25.0 billion, which is considered the SRPS peer group. All but two of these funds (Florida and Massachusetts) outperformed SRPS in fiscal 2012, and all provide their asset allocation in published reports. **Exhibit 3** provides information on the seven funds (in addition to Maryland) included in the analysis, including their one-year return and asset allocation.

Exhibit 3
State Retirement and Pension System
Peer Group Investment Returns and Asset Allocations
As of June 30, 2012

		Asset Allocation				
	<u>FY 2012 Return</u>	<u>Public Equity</u>	<u>Fixed Income</u>	<u>Private Equity</u>	<u>Real Estate</u>	<u>Other</u>
Maryland	0.36%	42.40%	19.20%	5.70%	6.40%	26.30%
Virginia	1.40%	42.90%	25.90%	9.10%	8.20%	14.00%
Pennsylvania Teachers	3.43%	23.00%	20.80%	22.00%	12.80%	21.40%
New Jersey	2.26%	45.30%	23.60%	6.80%	4.70%	19.80%
North Carolina	2.20%	47.40%	37.50%	4.00%	5.50%	5.60%
Washington State	1.40%	36.00%	22.20%	26.00%	13.70%	2.20%
Florida	0.29%	56.50%	25.50%	5.30%	7.60%	5.20%
Massachusetts	-0.08%	42.70%	13.00%	12.10%	9.70%	22.60%

Sources: Annual Reports of Selected State Pension Funds

Based on these allocations, the reasons for Maryland's underperformance relative to most of its peers becomes clear, as its allocations to the most robust asset classes in fiscal 2012 were below those of other states. In fiscal 2012, according to market indices, public equities lost roughly 6.5%, driven by the fiscal and monetary crises in the Eurozone countries, which drove down international stocks. By contrast, all other traditional asset classes had positive performance, led by strong returns for fixed income, real estate, and private equity. Looking at the five funds in Exhibit 3 that outperformed Maryland, all had higher allocations to fixed income, all but one had higher allocations to private equity, and all but two had higher allocations to real estate. Two of the five funds had substantially lower allocations to public equity; Virginia's allocation to public equity was only slightly higher than Maryland's, but its performance benefited from substantially higher allocations to the three high-performing classes than Maryland.

The reasons for the underperformance of Florida and Massachusetts relative to Maryland are also clear. Florida had the highest allocation to public equities among the seven states in the analysis, and Massachusetts had the lowest allocation to fixed income among the seven states.

It may seem from the above analysis that Maryland should make significant adjustments to its asset allocation to conform more closely with the asset allocation of its high-performing peers. Although the system did not make any substantive changes to its strategic asset allocation in fiscal 2012, it is still implementing changes in asset allocation that were adopted beginning in

fiscal 2008. As a result, some adjustments are still underway. **Exhibit 4** demonstrates that the system is currently in the process of moving toward its long-range strategic targets by reducing its exposure to public equities and fixed income and increasing its exposure to alternative asset classes such as private equity and credit/opportunity.

Exhibit 4
State Retirement and Pension System
Asset Allocation

	Strategic Target <u>June 30, 2012</u>	Actual <u>June 30, 2012</u>	Actual <u>June 30, 2011</u>
Equity			
Domestic Stocks		13.00%	16.30%
International Stocks		15.00%	18.70%
Global Equity		14.40%	12.20%
Total Public Equity	36.00%	42.40%	47.20%
Private Equity	10.00%	5.70%	4.30%
Real Estate	10.00%	6.40%	5.80%
Fixed Income	10.00%	19.20%	20.30%
Real Return Strategies	15.00%	10.00%	10.40%
Absolute Return	7.00%	6.80%	4.40%
Credit/Opportunity	10.00%	7.80%	5.90%
Cash and Other	2.00%	1.70%	1.70%
Total	100.00%	100.00%	100.00%

Source: State Retirement Agency

The agency should discuss the prospects for improving its relative performance based on the implementation of its asset allocation policy.

Proposed Budget

New funding in the fiscal 2014 allowance for information technology (IT) related projects represents the bulk of the increases in the agency's nonpersonnel spending over fiscal 2013. As shown in **Exhibit 5**, the single largest increase in the agency's budget is \$634,000 for the first step of the Maryland Pension Administration System (MPAS-II), which is described in greater detail below. An additional \$200,000 to replace the agency's outdated interactive voice response (IVR) system and \$75,000 to expand its storage area network (SAN) capabilities round out new spending for IT projects, which together represent 68.5% of the total increase in the agency's budget.

Exhibit 5
Proposed Budget
State Retirement Agency
(\$ in Thousands)

How Much It Grows:	Special Fund	Reimb. Fund	Total
2013 Working Appropriation	\$3,465	\$22,947	\$26,412
2014 Allowance	<u>3,747</u>	<u>23,992</u>	<u>27,739</u>
Amount Change	\$282	\$1,044	\$1,327
Percent Change	8.1%	4.6%	5.0%
Contingent Reductions	-\$4	\$0	-\$4
Adjusted Change	\$279	\$1,044	\$1,323
Adjusted Percent Change	8.0%	4.6%	5.0%

Where It Goes:**Personnel Expenses**

Retirement.....	\$355
Annualized general salary increase.....	143
Employee and retiree health insurance, net of across-the-board reductions	72
Turnover adjustments.....	71
Overtime	53
Other fringe benefit adjustments.....	6
Increments and other compensation.....	-78
Workers' compensation	-49

Other Changes

Maryland Pension Administration System (MPAS-II)	634
Medical Evaluations and Medical Board	103
Interactive Voice Response (IVR) Upgrade	200
New Storage Area Network (SAN)	75
Rent	-77
Computer Maintenance	-70
Actuarial and Accounting Services.....	-61
Travel	-17
Other	-37

Total	\$1,323
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Note: Numbers may not sum to total due to rounding.

G20J01 – State Retirement Agency

Funding for meetings of the agency's medical boards and medical assessments for disability claims also increase (\$103,463). The agency is currently experiencing a rising volume of claims for disability benefits, prompting increased need for independent medical assessments of the validity of those claims. In fiscal 2012, the agency paid for 212 non-psychiatric medical evaluations but is on pace for about 230 in fiscal 2013. Similarly, it requested 25 psychiatric assessments in fiscal 2012 but is on pace for about 35 in fiscal 2013. A variety of other core expenses for the agency experience reductions below fiscal 2013 levels, including rent, travel, computer maintenance contracts, and actuarial and accounting services.

In the absence of new positions, the largest personnel-related increases are for retirement contributions (\$354,593) and the annualized general salary increase (\$143,448). Overtime spending (\$52,602) is restored to pre-fiscal 2013 levels. Employee/retiree health insurance costs (\$72,433) and turnover expectancy (\$70,907) also experienced notable increases.

Issues

1. Joint Committee on Pensions Endorses Plan to Phase Out the Corridor Funding Method

The 2012 *Joint Chairmen's Report* required SRA and DLS to develop a plan to phase out the corridor funding method in conjunction with changes to relevant actuarial assumptions. A board proposal put forth to the Joint Committee on Pensions during the 2011 interim was to serve as the basis for the joint plan, with adjustments made to reflect potential changes in actuarial assumptions used to calculate the system's liabilities and assets. In November 2012, DLS and SRA together presented a proposal to the Joint Committee on Pensions, which then voted to sponsor legislation to implement the statutory components of the plan.

Chapter 440 of 2002 enacted the corridor funding method to help mitigate the effects of fluctuations in market returns on employer contribution rates by spreading out those effects over five years. The corridor method froze employer contribution rates for the employees' and teachers' systems, the two largest pension plans operated by the board, at their fiscal 2002 levels as long as each of the two systems remained actuarially funded between 90 and 110%. As the plans fell out of their corridors, the employer contributions increased by an amount equal to 20% of the difference between the prior year's rate and the "true" actuarial rate required to fully fund the systems. The employees' combined systems fell out of the corridor in fiscal 2005, followed by the teachers' combined systems in fiscal 2006.

For the first eight years that the corridor method was in existence, it accomplished its primary purpose of mitigating the effects of fluctuations in market returns on contribution rates while having only a minimal detrimental effect on pension funding levels. Between fiscal 2003 and 2010, the difference between employer contributions calculated under the corridor method and the employer contributions necessary to fully fund the pension system fluctuated between \$46.0 and \$192.0 million. This level of underfunding, when amortized over 25 years, resulted in minimal annual increases in State contribution rates in succeeding years, typically a fraction of a percentage point each year. However, in fiscal 2011 and 2012, the gap surpassed \$500.0 million each year. This level of underfunding has a more detrimental effect on pension funding levels and makes the corridor method unsustainable over the long term.

Terminating the corridor funding method and resuming full actuarial funding of the pension system would, as indicated above, require additional employer contributions of approximately \$500.0 million annually. Given the State's fiscal condition, that level of increased funding is not available. Therefore, the plan developed by SRA and DLS and endorsed by the Joint Committee on Pensions employs several strategies that mitigate the effect of ending the corridor method while also better aligning the system's actuarial assumptions with recent economic experience. The four components of the plan are:

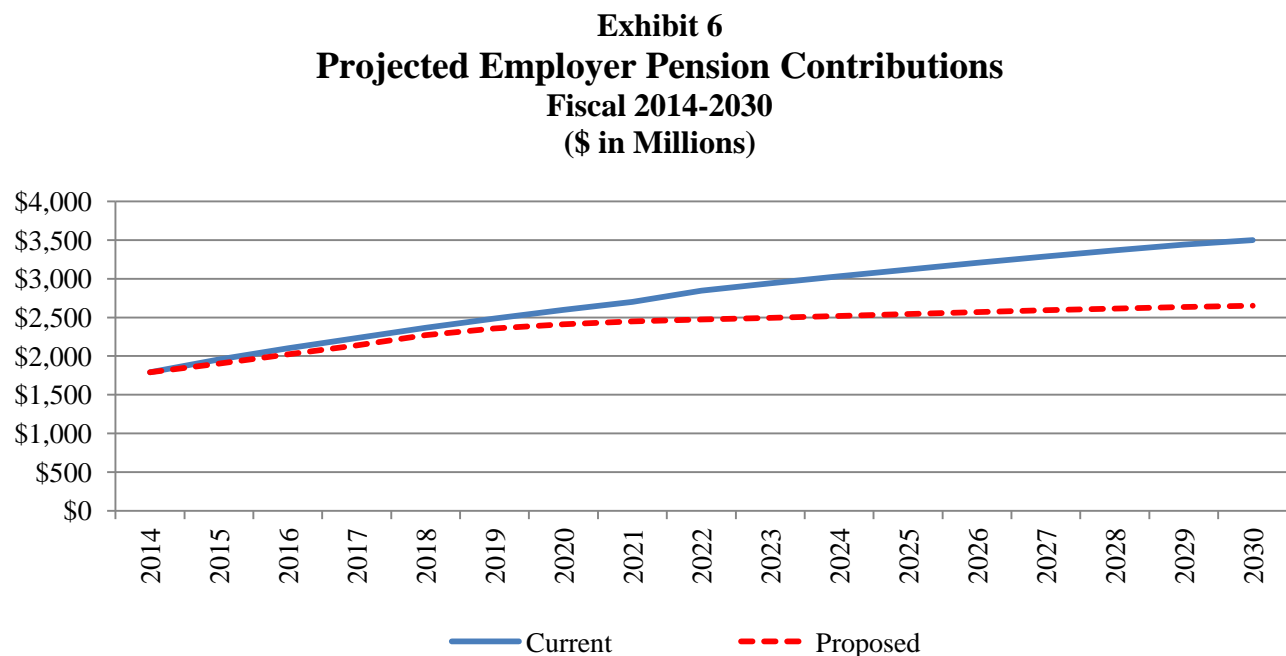
- phasing out the corridor funding method over 10 years;

- adopting a 25-year closed amortization schedule for all current and future liabilities;
- reducing the system’s inflation assumption from 3.0 to 2.8%; and
- decreasing the system’s investment return assumption from 7.75 to 7.55% over four years.

The first two components of the plan require legislative action by the General Assembly because the corridor method and the amortization policy are statutory requirements. The latter two components are the purview of the board, which establishes the actuarial assumptions used to calculate the pension plan’s future liabilities and assets. Although the first two components represent the bulk of the plan, by themselves they do not generate the level of savings shown below. **Therefore, the agency should discuss the merits of the proposed plan and the extent to which it is consistent with the board’s fiduciary responsibility.**

Plan Reduces Total Employer Contributions, Delays 80% Funding Level

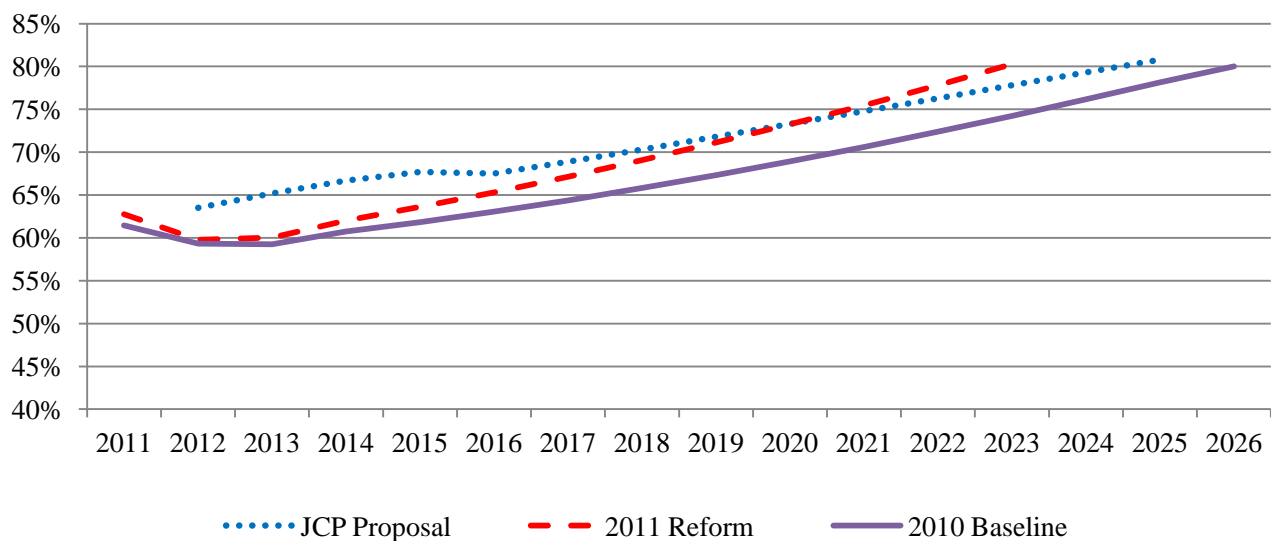
In combination, these steps generate substantial short- and long-term reductions in the employer contribution. In fiscal 2015, the plan is expected to reduce the employer contribution by \$55.0 million, with the level of savings expanding annually thereafter, as shown in **Exhibit 6**.



Source: State Retirement Agency; Department of Legislative Services

The proposed changes to the pension funding model likely add two years to the amount of time necessary for the pension fund to reach the 80% funding level. The 2011 pension reform measures were designed to allow the pension fund to reach the 80% funding level by fiscal 2023, three years earlier than originally forecast. As shown in **Exhibit 7**, the proposed funding model pushes the 80% forecast back by two years, to fiscal 2025, or one year earlier than the original fiscal 2026 forecast. Moreover, it ensures that when the 80% funding level is reached, the system will be using an actuarially sound funding model that places it on a clear path to full funding.

Exhibit 7
Projections for Reaching 80% Funding Level
Fiscal 2011-2026



JCP: Joint Committee on Pensions

Source: State Retirement Agency; Department of Legislative Services

2. Scaled Back MPAS-II Begins

The Governor's allowance includes \$634,000 to begin implementation of MPAS-II, which is devoted to data scrubbing. The allocation is divided as follows:

Contracted programming services	\$450,000
Equipment	116,548
2.0 full-time equivalent contractuels	53,452
Software	14,000
Total	\$634,000

This approach represents a substantial scaling back of the scope of the project; originally, \$2.5 million was appropriated in fiscal 2012 for the project, most of which was later cancelled because the agency's IT efforts were redirected to implementing pension reform legislation enacted in 2011. However, \$269,000 of that appropriation was reserved to contract with Towson University to assist the agency in re-scoping the project (actual expenditures for the contract were \$180,000). As a result of the re-scoping, the agency opted to divide MPAS-II into two parts, dubbed IIa and IIb. Under the current scope, MPAS-IIa is expected to last two years and cost a total of \$1.15 million, with \$634,000 spent in fiscal 2014 and \$516,000 in fiscal 2015.

The agency advises that the decision to divide MPAS-II into two parts stemmed from the clarity of the scope for the first part and the uncertainty of the scope of the second part. Prior to pursuing any of the customer service improvements envisioned under MPAS-II (including, for instance, a more interactive website), the agency must first ensure the quality and integrity of the payroll and service credit data stored and entered into the system. That endeavor, therefore, became the focus of IIa. The approach entails writing and executing a series of data filters to identify irregularities that exist in individual records as well as incoming payroll data, and then either correcting or flagging the data for future reconciliation. The programming of data filters will be carried out by an IT contractor, with two contractual staff (likely former agency employees) hired by the project responsible for reviewing the results and identifying corrections or flags to be inserted into the system.

Data that is flagged will be easily identifiable when an individual member's account is audited upon the member's retirement, which is already standard procedure. The agency cannot reliably predict the ratio of data correction to data flagging until it engages in the data screening, but there is the potential for a substantial volume of inaccurate data to remain in the system pending future account audits. Because of the labor intensive nature of the project, and because it does not entail any infrastructure upgrades, it is not being treated as a Major Information Technology Project by the Department of Information Technology (DoIT). Therefore, while DoIT was consulted at the outset of the scoping process, it has not otherwise been actively involved in providing oversight of the project.

Project scoping for step IIb has not been completed, but the agency's Master Plan envisions enhancements to its website to allow members to have direct access to their service credit, compensation, and demographic data. This would allow them to calculate estimated retirement benefits under different scenarios using their individual service history. Currently, on-line retirement calculations are generic and not specifically linked to individual data. In addition to improving customer service, automation of this function should reduce the workload of the Benefits Processing unit, which is responsible for making retirement calculations for members who are within one year of retirement.

The agency should discuss (1) the reasons for its decision to divide MPAS-II into two steps; (2) the components of the anticipated second step of MPAS-II; and (3) any risks associated with its current approach.

Recommended Actions

1. Concur with Governor's allowance.

Updates

1. Higher Normal Cost Means Increased Local Share of Teacher Pension Costs....Eventually

The Board of Trustees voted in spring 2012 to adopt the recommendations of its actuary to change a variety of demographic assumptions used to calculate pension liabilities. The new assumptions related to rates of retirement, disability, withdrawal, and mortality were first applied to the June 30, 2012 actuarial valuation, which is the basis for the calculation of employer contribution rates for fiscal 2014. The changes vary extensively across different plans within SRPS, as well as by age and accumulated service credit, reflecting actual trends in those rates identified by an experience study completed in 2011. The net effect, however, was an increase in the value of service credit earned by SRPS members, which is reflected in an increase in the normal cost, which is the value of pension benefits earned in a given year by members.

In the case of the Teachers' Retirement System and Teachers' Pension System (TRS/TPS), the employer share of the normal cost increased from 4.62% in fiscal 2013 to 5.83% in fiscal 2014. Absent the board's actions, the employer normal cost had been projected to decrease to 4.46%, which is shown in **Exhibit 8**.

Exhibit 8 **Projected Local Share of Teacher Pension Costs**

	<u>2012</u> <u>Projection</u>	<u>2013</u> <u>Projection</u>	<u>Difference</u>	<u>JCP</u> <u>Proposal</u>
TCS Normal Cost				
FY 2013 (actual)	4.62%	4.62%	0.00	n/a
FY 2014	4.46%	5.83%	1.37	n/a
FY 2017	4.05%	5.36%	1.31	5.40%
Pension Contributions				
FY 2014 School Boards	\$173,201,321	\$219,614,202	\$46,412,881	n/a
FY 2014 Libraries	2,758,549	3,588,644	830,095	n/a
FY 2014 Community Colleges	7,341,913	9,293,376	1,951,463	n/a
Total	\$183,301,783	\$232,496,222	\$49,194,439	n/a
FY 2017 School Boards	\$249,299,915	\$320,042,329	\$70,742,414	\$322,430,705
FY 2017 Libraries	3,970,558	5,229,707	1,259,149	5,268,734
FY 2017 Community Colleges	11,045,558	14,155,590	3,110,032	14,261,228
Total	\$264,316,031	\$339,427,625	\$75,111,594	\$341,960,667

JCP: Joint Committee on Pensions
TCS: Teachers' Combined Systems

Source: State Retirement Agency; Department of Legislative Services

Chapter 1 of the first Special Session of 2012 requires local school boards to pay a portion of the normal cost for their employees who are members of TRS/TPS. Prior to that, the State paid 100% of the annual employer contribution on behalf of teachers in the State. Based on 2012 projections of the normal cost, local school boards pay 50% of the normal cost in fiscal 2013, phasing up to 100% of the normal cost by fiscal 2016. For those four years, Chapter 1 specifies the exact dollar amount to be paid by each local school board based on the projected normal cost and the local share of that cost. Beginning in fiscal 2017, however, local school boards must pay 100% of the *actual* normal cost. It bears noting that beginning in fiscal 2013, Chapter 1 also requires county governments and Baltimore City to adjust their maintenance of effort payments to local school boards to compensate them for teacher pension costs. Beginning in fiscal 2017, the fiscal 2016 payments by the counties are included in subsequent years' maintenance of effort calculations, so local school boards are responsible for any increase in normal cost payments between fiscal 2016 and each succeeding year.

The increase in the normal cost prompted by the board's action means that, beginning in fiscal 2017, local school board contributions will increase by a projected \$70.7 million, as shown in Exhibit 8. Had the local school boards not been held harmless by Chapter 1, their fiscal 2014 payment would have increased by \$46.4 million over the initial projections. Instead, the State is making up the difference through its continued payment on behalf of TRS/TPS members.

DLS further notes that the joint DLS/SRA proposal to phase out the corridor (see above) includes adjustments to two economic actuarial assumptions: the investment return assumption and the inflation assumption. If the proposal is enacted and the board votes to change those assumptions for the June 30, 2013 actuarial valuation, the TRS/TPS normal cost likely increases slightly over the current projected rate, which is also shown in Exhibit 8. DLS estimates that, based on the projected increase in the normal cost resulting from changes to economic actuarial assumptions, the local share of teacher pension costs would increase by an additional \$2.4 million beginning in fiscal 2017.

Current and Prior Year Budgets

Current and Prior Year Budgets State Retirement Agency (\$ in Thousands)

	<u>General Fund</u>	<u>Special Fund</u>	<u>Federal Fund</u>	<u>Reimb. Fund</u>	<u>Total</u>
Fiscal 2012					
Legislative Appropriation	\$0	\$27,628	\$0	\$0	\$27,628
Deficiency Appropriation	0	0	0	0	0
Budget Amendments	0	140	0	0	140
Reversions and Cancellations	0	-2,233	0	0	-2,233
Actual Expenditures	\$0	\$25,536	\$0	\$0	\$25,536
Fiscal 2013					
Legislative Appropriation	\$0	\$3,447	\$0	\$22,829	\$26,275
Budget Amendments	0	18	0	119	137
Working Appropriation	\$0	\$3,465	\$0	\$22,947	\$26,412

Note: Numbers may not sum to total due to rounding.

Fiscal 2012

- The distribution of centrally budgeted funds for a one-time employee bonus of \$750 increased salaries by \$140,419.

Fiscal 2013

- The distribution of centrally budgeted funds for a 2.0% employee cost-of-living adjustment beginning January 1, 2013, increased expenditures of reimbursable funds by \$118,765 and special funds by \$18,301, for a total increase of \$137,066.

Audit Findings

Audit Period for Last Audit:	October 1, 2008 – May 19, 2011
Issue Date:	March 2012
Number of Findings:	1
Number of Repeat Findings:	0
% of Repeat Findings:	0%
Rating: (if applicable)	n/a

Finding 1: Maryland Pension Administrative System (MPAS) database controls were not sufficient. Access to the database was not adequately restricted to system administrators, and security, audit, and other changes were not logged. The agency concurred with the findings and took steps to address the audit's recommendations.

**Object/Fund Difference Report
State Retirement Agency**

<u>Object/Fund</u>	<u>FY 12 Actual</u>	<u>FY 13 Working Appropriation</u>	<u>FY 14 Allowance</u>	<u>FY 13 - FY 14 Amount Change</u>	<u>Percent Change</u>
Positions					
01 Regular	187.00	192.00	192.00	0.00	0%
02 Contractual	14.50	14.50	14.50	0.00	0%
Total Positions	201.50	206.50	206.50	0.00	0%
Objects					
01 Salaries and Wages	\$ 16,301,481	\$ 16,912,227	\$ 17,489,059	\$ 576,832	3.4%
02 Technical and Spec. Fees	931,723	895,023	1,060,484	165,461	18.5%
03 Communication	478,384	452,896	456,777	3,881	0.9%
04 Travel	125,738	182,131	165,237	-16,894	-9.3%
07 Motor Vehicles	157,282	154,650	155,520	870	0.6%
08 Contractual Services	5,079,125	5,067,433	5,345,747	278,314	5.5%
09 Supplies and Materials	174,813	174,083	188,406	14,323	8.2%
10 Equipment – Replacement	54,219	64,950	345,451	280,501	431.9%
11 Equipment – Additional	29,896	44,600	141,973	97,373	218.3%
12 Grants, Subsidies, and Contributions	362,839	382,426	382,426	0	0%
13 Fixed Charges	1,839,932	2,081,846	2,007,709	-74,137	-3.6%
Total Objects	\$ 25,535,432	\$ 26,412,265	\$ 27,738,789	\$ 1,326,524	5.0%
Funds					
03 Special Fund	\$ 25,535,432	\$ 3,464,851	\$ 3,747,006	\$ 282,155	8.1%
09 Reimbursable Fund	0	22,947,414	23,991,783	1,044,369	4.6%
Total Funds	\$ 25,535,432	\$ 26,412,265	\$ 27,738,789	\$ 1,326,524	5.0%

Note: The fiscal 2013 appropriation does not include deficiencies. The fiscal 2014 allowance does not include contingent reductions.

**Fiscal Summary
State Retirement Agency**

<u>Program/Unit</u>	<u>FY 12 Actual</u>	<u>FY 13 Wrk Approp</u>	<u>FY 14 Allowance</u>	<u>Change</u>	<u>FY 13 - FY 14 % Change</u>
01 State Retirement Agency	\$ 25,266,660	\$ 26,412,265	\$ 27,738,789	\$ 1,326,524	5.0%
02 Major Information Technology Development Projects	268,772	0	0	0	.0%
Total Expenditures	\$ 25,535,432	\$ 26,412,265	\$ 27,738,789	\$ 1,326,524	5.0%
Special Fund	\$ 25,535,432	\$ 3,464,851	\$ 3,747,006	\$ 282,155	8.1%
Total Appropriations	\$ 25,535,432	\$ 3,464,851	\$ 3,747,006	\$ 282,155	8.1%
Reimbursable Fund	\$ 0	\$ 22,947,414	\$ 23,991,783	\$ 1,044,369	4.6%
Total Funds	\$ 25,535,432	\$ 26,412,265	\$ 27,738,789	\$ 1,326,524	5.0%

Note: The fiscal 2013 appropriation does not include deficiencies. The fiscal 2014 allowance does not include contingent reductions.